

file

SKYLINE HOTELS LIMITED
AND
WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENT



The Canadian Chain

TORONTO • MONTREAL • OTTAWA • BROCKVILLE
KINGSTON, JAMAICA

YEAR ENDED DECEMBER 31, 1969
WITH 1968 COMPARISONS

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Message from the President

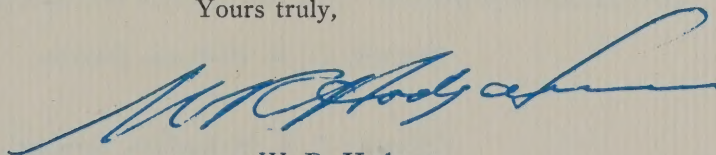
I am very pleased to report to the shareholders on the operations and results of your Company for the year 1969. The gross sales were \$14,064,467 against a comparative figure of \$12,835,002 in 1968. The year saw the profits of your company rise to \$601,602 against a 1968 profit of \$61,311. While we feel this is most gratifying, it is less than we had anticipated. We had expected the Toronto tower addition to be opened September 1, 1969 but due to the construction strike lasting three months, the Toronto expansion was not completed until December 15, 1969 which severely affected our second half revenue. Despite this setback, we feel the results have been most encouraging. As we are a cash flow industry, it is important to note that our cash flow for the period was \$1,245,219 against a cash flow for 1968 of \$643,795. As recently reported, the first quarter of 1970 shows a profit of \$160,973 against a profit of \$82,030 for the same period in 1969. With all hotels operating at a satisfactory level, it is anticipated 1970 again will show a substantial increase over 1969.

On May 1, 1970 a new Skyline hotel will open in Kingston, Jamaica. It will be operated under a management contract by a wholly-owned subsidiary, Skyline International Limited. A second hotel in Jamaica, consisting of 350 rooms, located at Ocho Rios, has been designed and planned and agreements have been signed with Jamaican interests for their participation. However, your Company's participation in this project has been postponed subject to further negotiations. It is the desire of management to proceed with this project but only after certain undertakings and covenants are obtained which are satisfactory to your Directors.

May I take this opportunity to thank you for your continuing interest and support and assure you that management will continue to make "Skyline" the proudest name in the Canadian hotel industry.

Should you have the opportunity to visit any of your hotels in the ensuing months, please take time to contact the hotel manager who will be pleased to take you on a tour of his operations.

Yours truly,

A handwritten signature in blue ink, appearing to read 'W. R. Hodgson', with a stylized flourish at the end.

W. R. Hodgson
President

April 21, 1970

Skyline Hotels Limited and Wholly Owned Subsidiaries
Consolidated Balance Sheet
December 31, 1969 with 1968 Comparisons

Assets

CURRENT ASSETS	1969	1968
Cash	\$ 20,122	\$ 23,762
Deposit receipt	—	350,000
Accounts receivable	875,850	687,402
Inventories — at cost	345,602	323,417
Funds on deposit (note 2)	883,305	998,966
Prepaid expenses and sundry assets	208,778	139,067
	<hr/> \$ 2,333,657	<hr/> \$ 2,522,614
FIXED ASSETS (note 3)	<hr/> \$12,743,840	<hr/> \$ 8,582,650
OTHER ASSETS		
Special refundable tax	\$ —	\$ 10,729
Unamortized financing costs	127,416	80,343
Hotel opening and establishment costs (after amortization of \$186,550)	372,485	389,435
Preliminary costs re Jamaica (note 11 (b))	24,597	—
Organization expenses	7,839	7,439
Share issue costs	70,284	69,263
Goodwill on consolidation	86,280	86,280
	<hr/> \$ 688,901	<hr/> \$ 643,489
Total assets	<hr/> <hr/> \$15,766,398	<hr/> <hr/> \$11,748,753

Approved on behalf of the Board:

(Signed) W. R. Hodgson, Director

(Signed) C. A. McKechnie, Director

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Skyline Hotels Limited and wholly owned subsidiaries as at December 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of Skyline Hotels Limited and one subsidiary of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of the other subsidiary.

Skyline Hotels Limited and Wholly Owned Subsidiaries
Consolidated Balance Sheet
December 31, 1969 with 1968 Comparisons

Liabilities

CURRENT LIABILITIES	1969	1968
Bank indebtedness (note 4)	\$ 157,288	\$ 471,216
Accounts payable — trade	1,454,079	1,184,354
— construction	769,324	207,724
Notes payable	—	55,000
Long-term debt due within one year	492,500	354,500
	<hr/>	<hr/>
	\$ 2,873,191	\$ 2,272,794
LONG-TERM DEBT (note 5)	8,554,852	5,739,206
	<hr/>	<hr/>
Total liabilities	\$11,428,043	\$ 8,012,000
	<hr/>	<hr/>

Shareholders' Equity

CAPITAL STOCK (note 6)	\$ 2,752,030	\$ 2,752,030
RETAINED EARNINGS	1,586,325	984,723
	<hr/>	<hr/>
	\$ 4,338,355	\$ 3,736,753
	<hr/>	<hr/>
	\$15,766,398	\$11,748,753
	<hr/>	<hr/>

The accompanying notes form an integral part of these consolidated financial statements.

In our opinion, except that the provision for income taxes has not been computed under the tax allocation basis as explained in note 9, these financial statements present fairly the financial position of the Companies at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

(Signed) PERLMUTTER, ORENSTEIN, GIDDENS, NEWMAN & Co.
 Toronto, March 31, 1970 Chartered Accountants

Skyline Hotels Limited and Wholly Owned Subsidiaries
Consolidated Statement of Retained Earnings
Year Ended December 31, 1969 with 1968 Comparisons

	1969	1968
BALANCE — January 1	\$ 984,723	\$1,013,412
Add — Net earnings for the year	601,602	61,311
	<u>\$1,586,325</u>	<u>\$1,074,723</u>
DEDUCT — Dividends — stock (including tax thereon)	—	90,000
	<u>\$1,586,325</u>	<u>\$ 984,723</u>
BALANCE — December 31,	<u><u>\$1,586,325</u></u>	<u><u>\$ 984,723</u></u>

Skyline Hotels Limited and Wholly Owned Subsidiaries
Consolidated Statement of Earnings
Year Ended December 31, 1969 with 1968 Comparisons

	1969	1968
Sales	\$14,064,467	\$12,835,002 ✓
Cost of sales and operating expenses	12,355,493	11,553,327
	<u>\$ 1,708,974</u>	<u>\$ 1,281,675</u>
Earnings before the undernoted items	112,668	—
Interest income (note 2)	<u>\$ 1,821,642</u>	<u>\$ 1,281,675</u>
Interest on long-term debt	\$ 565,058	\$ 568,322
Other interest	32,970	100,444
Depreciation and amortization (note 8)	622,012	551,598
	<u>\$ 1,220,040</u>	<u>\$ 1,220,364</u>
Earnings before income taxes	\$ 601,602	\$ 61,311
Income taxes (note 9)	—	—
	<u>\$ 601,602</u>	<u>\$ 61,311</u> ✓
Net earnings (note 9)	<u><u>\$ 601,602</u></u>	<u><u>\$ 61,311</u></u> ✓
Earnings per share	53.7¢	8.0¢ ✓

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited and Wholly Owned Subsidiaries
Consolidated Statement of Source and Application of Funds
Year Ended December 31, 1969 with 1968 Comparisons

SOURCE OF FUNDS	1969	1968
Net earnings for the year	\$ 601,602	\$ 61,311
Add — Charges not requiring outlay of funds		
Depreciation and amortization	622,012	551,598
Amortization of financing costs	21,605	30,886
	<hr/>	<hr/>
Funds from operations	\$1,245,219	\$ 643,795
Proceeds of issue of long-term debt	4,672,268	3,347,608
Proceeds of share issue	—	2,751,000
Special refundable tax	10,729	—
Repayment of advances to affiliate	—	31,575
	<hr/>	<hr/>
	\$5,928,216	\$6,773,978
	<hr/>	<hr/>
 APPLICATION OF FUNDS		
Fixed asset additions (net)	\$4,730,884	\$ 686,783
Long-term debt repayments		
Normal amortization	362,110	389,277
Refinancing	1,425,188	3,094,055
Hotel opening and establishment costs	35,370	—
Preliminary costs re Jamaica	24,597	—
Redemption of preference shares issued as stock dividends (including tax)	—	90,000
Share issue costs	1,021	69,263
Sundry	400	1,415
	<hr/>	<hr/>
	\$6,579,570	\$4,330,793
	<hr/>	<hr/>
(DECREASE) INCREASE IN WORKING CAPITAL (exclusive of long-term debt due within one year)	(\$ 651,354)	\$2,443,185
	<hr/>	<hr/>

The accompanying notes form an integral part of these consolidated financial statements.

Skyline Hotels Limited and Wholly Owned Subsidiaries
Notes to Consolidated Financial Statements

December 31, 1969

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Skyline Hotels (Montreal) Limited and Skyline International Limited, after elimination of inter-company transactions.

2. FUNDS ON DEPOSIT

On December 31, 1968 the Company placed \$998,966 on deposit with the holder of its conditional sales agreement obligations (see note 5). This deposit earns interest at 12% per annum, and is repayable on ninety days notice given by the Company. In the interim, instalment payments falling due under the conditional sales agreements have been met from the funds on deposit.

On February 6, 1970 the Company gave notice for repayment of the balance of the funds on deposit.

3. FIXED ASSETS	Cost	Accumulated depreciation	Net
Land	\$ 155,796	\$ / —	\$ 155,796
Paving	161,943	44,871	117,072
Buildings	8,391,085	751,108	7,639,977
Leasehold improvements	1,096,741	180,766	915,975
Equipment	5,428,760	1,996,609	3,432,151
Automobiles	18,664	6,062	12,602
	<u>\$15,252,989</u>	<u>\$2,979,416</u>	<u>\$12,273,573</u>
Tableware, linen and uniforms			<u>470,267</u>
			<u>\$12,743,840</u>

4. ASSETS PLEDGED

As collateral security for their bank indebtedness the Company and a subsidiary have made general assignments of book debts.

5. LONG-TERM DEBT

	1969	1968
9% First Mortgage Bonds, due 1990 (the Trust Indenture provides that either the Company or the bondholders may request renegotiation of the interest rate in 1979 and 1984, in which event failure to reach agreement will render the bonds due in 1980 or 1985 respectively)	\$4,000,000	\$ —
Debenture, 9.98%, due 1974 (secured)	3,249,698	3,344,054
Conditional sales agreements, 12%, due 1972 and 1975	1,469,458	993,153
Instalment contracts secured by retention of title to equipment	328,196	271,289
Other debt discharged in 1969	—	1,485,210
	<u>\$9,047,352</u>	<u>\$6,093,706</u>
Less — Amount due within one year	<u>492,500</u>	<u>354,500</u>
	<u>\$8,554,852</u>	<u>\$5,739,206</u>

5. (cont.)

Principal payments falling due in each of the next five years are as follows:

— 1970 - \$492,500; — 1971 - \$542,500; — 1972 - \$1,031,800; — 1973 - \$409,000;
— 1974 - \$2,999,300.

6. CAPITAL STOCK

Authorized

3,000,000 common shares without par value

Issued and fully paid

1,120,000 common shares \$2,752,030

7. DIVIDEND RESTRICTION

The Trust Indenture securing the 9% First Mortgage Bonds provides that the Company may not pay dividends which would have the effect of reducing consolidated net current assets (as defined) below an amount equal to eighteen months interest on the Bonds then outstanding or reducing consolidated retained earnings (as defined) below \$800,000.

8. DEPRECIATION AND AMORTIZATION	1969	1968
Depreciation of fixed assets	\$569,692	\$521,198
Amortization of hotel opening and establishment costs	52,320	30,400
	<u>\$622,012</u>	<u>\$551,598</u>

Depreciation was provided at the following rates:

Paving	—	4% of cost
Building	—	1 $\frac{2}{3}$ % of cost
Leasehold improvements	—	amortized over term of lease (including, in one case, term of renewal options)
Equipment	—	10% of cost
Automobiles	—	30% of net book value

Opening and establishment costs for each hotel are being amortized over a ten year period commencing twelve months after each hotel opening.

9. INCOME TAXES

The Company and a subsidiary claim capital cost allowances and other deductions allowed for income tax purposes in excess of the related amounts reflected in the accounts, but provide in their accounts only for taxes payable on their taxable income for the year.

This accounting treatment differs from the tax allocation basis under which the income tax provision is based on income reported in the accounts. If the tax allocation basis had been followed in the current and prior years, net earnings for the year would have been reduced by \$293,962 (1968 — \$23,764) and the cumulative amount of deferred tax credits to December 31, 1969 would have been \$844,545.

For income tax purposes, the Company and a subsidiary have tax losses and additional optional tax write offs aggregating approximately \$1,127,000 available to offset future years' taxable income.

10. STATUTORY INFORMATION

- a) The aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company for 1969 was \$113,576 (1968 — \$110,390).
- b) Non-interest bearing loans made during the year to directors and officers of the Company aggregated \$46,542, of which \$17,990 is outstanding as of December 31, 1969.

11. COMMITMENTS

- a) The Company and a subsidiary have contractual obligations in respect of three long-term leases of hotel real estate having varying expiry dates from 1983 to 1991, of which two contain options to renew for further periods. The rentals incurred in respect of these obligations for the year ended December 31, 1969 aggregated \$1,242,485 (1968 — \$1,236,373).

The minimum rentals to be incurred in each of the years 1970 to 1982 will aggregate \$1,236,373.

- b) A wholly-owned subsidiary has entered into an agreement which provides that, subject to the fulfillment of certain conditions, it will build, furnish and equip a 350 room hotel in Jamaica for a fixed price of \$6,500,000. Upon completion, the subsidiary will enter into a lease to rent the hotel from the owner for 25 years at a rental based upon a percentage of sales. The agreement also provides that the subsidiary will subscribe for \$250,000 of common shares to be issued by the hotel-owning company.

Certain covenants and conditions in the agreement have not been fulfilled, and negotiations are in progress to change the basis of the project. In the event of termination, the agreement provides a basis for the sharing of preliminary costs.

12. CONTINGENT LIABILITIES

- a) Until November 17, 1971 the Company is contingently liable with others as joint and several guarantors of the first mortgage debt of Campeau Corporation Limited on the Place de Ville complex in Ottawa, the principal amount of which is about \$21,831,000.

The Company is advised by Campeau Corporation Limited that the rentable area in the complex, excluding the portion covered by the Company's lease, is in excess of 98% rented, and that the annual net operating income from the complex is well in excess of the annual principal and interest payments under the mortgage.

- b) In January 1970 the Company was advised by the Liquor License Board of Ontario that the license transfer fee provisions of the Liquor Act of Ontario would be invoked in respect of the issue in 1968 of 420,000 common shares of the Company. The Company intends to appeal this decision, and accordingly has made no provision in its accounts for the transfer fees claimed to be payable of approximately \$197,000. The Company's counsel has advised that since no precedents are available, he is unable to give a firm opinion as to the probable outcome of the proposed appeal.

13. RECLASSIFICATION

1968 comparative figures have been reclassified to conform with 1969 presentation.

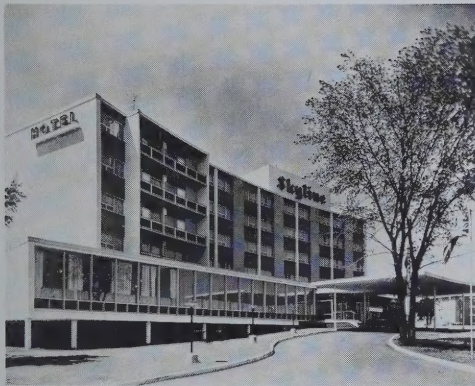
SKYLINE HOTELS LIMITED

The Canadian Chain



SKYLINE TORONTO

A view from the north-west showing the tower and a portion of the west wing of the hotel.



SKYLINE BROCKVILLE

Skyline Brockville, photo shows main entrance plus the east and south sides of the hotel.



SKYLINE OTTAWA

Skyline Ottawa showing the canopied main entrance. Photo taken from the north-west looking toward the center of the City.



SKYLINE MONTREAL

Skyline Montreal looking south from the new Cote de Liesse Road.



SKYLINE KINGSTON JAMAICA

A view showing the front and side and a portion of the lovely surrounding area.

